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Message Text

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44
ACTION EB-11

INFO OCT-01 NEA-14 ISO-00 AID-20 CIAE-00 COME-00 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 ABF-01 FS-01

DRC-01 /160 W
---------- 103062
R 241030Z JUL 74
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 2866
INFO AMEMBASSY DACCA
AMEMBASSY KATHMANDU
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

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E.O. 11652: N/A
TAGS: EFIN, IN
SUBJECT: RESERVE BANK DISCOUNT RATE INCREASED TO CONTROL INFLATION

REFS: A) NEW DELHI 9057 B) NEW DELHI 9832

1. THE RESERVE BANK OF INDIA (RBI) HAS INCREASED THE DISCOUNT RATE FROM 7 PERCENT TO 9 PERCENT, EFFECTIVE JULY 23, AS THE LATEST OF THE MONETARY AND FISCAL STEPS TO CONTROL INFLATION. THIS IS FOR THE FIRST TIME IN INDIA THAT THE RATE HAS BEEN RAISED BY AS MUCH AS 2 PERCENTAGE POINTS AT ONE TIME. SIMULTANEOUSLY, COMMERCIAL BANKS HAVE ALSO BEEN PERMITTED TO INCREASE THEIR PRIME RATES, WHICH AT PRESENT RANGE BETWEEN 12 AND 13 PERCENT, BY TWO PERCENTAGE POINTS.

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2. COMMERCIAL BANKS' TERM DEPOSIT RATES HAVE BEEN RAISED BY

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MARGINS VARYING BETWEEN 0.5 PERCENT AND 2 PERCENT TO PROMOTE HOLDING OF SAVINGS IN FINANCIAL INSTITUTIONS. THE MAXIMUM RATE ON DEPOSIT FOR A PERIOD OF ABOVE 5 YEARS IS NOW 10 PERCENT COMPARED TO 8.5 PERCENT PREVIOUSLY.

3. UNDER PRESENT CONDITIONS OF SHORTAGES AND A SWOLLEN MONEY SUPPLY, NO SINGLE ANTI-INFLATIONARY STEP, INCLUDING THIS ONE CAN HOPE TO ACCOMPLISH MUCH, BUT THE SERIES OF QUITE ORTHODOX RECENT STEPS TAKEN TOGETHER MIGHT BEGIN TO SLOW INFLATION DOWN JUST A BIT. WHILE THE PRESENT DETERMINATION AND FLURRY OF ACTIVITY ARE HOPEFUL, MORE IMPORTANT ARE THE STEPS THAT HAVE NOT YET BEEN TAKEN, ESPECIALLY TAXATION OF AGRICULTURAL INCOME BY THE STATES (TO WHICH IT IS CONSTITUTIONALLY RESERVED), AND MOPPING UP OF BLACK MONEY. UNLESS SOMETHING CAN BE DONE ABOUT THESE INEQUITIES, THE CURRENT ANTI-INFLATIONARY CAMPAIGN MAY NOT AMOUNT TO MUCH. OVER THE NEXT SEVERAL MONTHS, AVAILABILITY OF FOOD WILL ALSO PLAY A MAJOR ROLE IN DETERMINING THE COURSE OF INFLATION. A GOOD CROP COULD MITIGATE IT SUBSTANTIALLY, WHILE THE EFFECTS OF A BAD CROP WILL SWAMP THE IMMEDIATE EFFECTS OF ANY MONETARY OF FISCAL MEASURES.
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